FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________

Commission file number 0-28740

MIM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	05-0489664
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Clearbrook Road, Elmsford, NY 10523

(Address of principal executive offices)

(914) 460-1600

(Registrant's telephone number, including area code)

Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

On August 3, 1999, there were outstanding 18,729,189 shares of the Company's common stock, $.0001 par value per share ("Common Stock").

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PART 1
FINANCIAL INFORMATION

Item 1. Financial Statements

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 1999	December 31, 1998
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,316	$ 4,495
Investment securities	5,373	11,694
Receivables, less allowance for doubtful accounts of $2,123 and $2,239 at June 30, 1999 and December 31, 1998, respectively	60,759	64,747
Inventory	860	1,187
Prepaid expenses and other current assets	877	857
Total current assets	74,185	82,980
Other investments	2,317	2,311
Property and equipment, net	6,608	4,823
Due from affiliate and officer, less allowance for doubtful accounts of $403 at June 30, 1999 and December 31, 1998, respectively	1,804	34
Other assets, net	161	293
Deferred income taxes	274	270
Intangible assets, net	18,950	19,395
Total assets	$ 104,299	$ 110,106
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 494	$ 277
Current portion of long-term debt	362	208
Accounts payable	5,769	6,926
Claims payable	33,296	32,855
Payables to plan sponsors and others	15,832	16,490
Accrued expenses	5,435	6,401
Total current liabilities	61,188	63,157
Capital lease obligations, net of current portion	986	598
Long-term debt, net of current portion	723	6,185
Commitments and contingencies		
Minority interest	1,112	1,112
Stockholders' equity		
Preferred stock, $.0001 par value; 5,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $.0001 par value; 40,000,000 shares authorized, 18,729,198 and 18,090,748 shares issued and outstanding at June 30, 1999 and December 31, 1998, respectively	2	2
Treasury stock at cost	(338)	-
Additional paid-in capital	91,614	91,603
Accumulated deficit	(49,449)	(50,790)
Stockholder notes receivable	(1,539)	(1,761)
Total stockholders' equity	40,290	39,054
Total liabilities and stockholders' equity	$ 104,299	$ 110,106

The accompanying notes are an integral part of these consolidated financial statements.

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
	(Unaudited)		(Unaudited)	
Revenue	$ 88,894	$ 109,878	$ 163,809	$ 207,841
Cost of revenue	81,077	103,660	147,810	196,044
Gross profit	7,817	6,218	15,999	11,797
Selling, general and administrative expenses	7,074	4,811	14,586	9,261
Amortization of goodwill and other intangibles	194	--	444	--
Income from operations	549	1,407	969	2,536
Interest income, net	188	483	384	990
Other	--	(1)	(12)	(1)
Net income	$ 737	$ 1,889	$ 1,341	$ 3,525
Basic income per common share	$ 0.04	$ 0.14	$ 0.07	$ 0.26
Diluted income per common share	$ 0.04	$ 0.12	$ 0.07	$ 0.23
Weighted average common shares used in computing basic income per share	18,777	13,594	18,639	13,471
Weighted average common shares used in computing diluted income per share	18,953	15,489	18,883	15,467

The accompanying notes are an integral part of these consolidated financial statements.

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	1999	1998
Cash flows from operating activities:	(Unaudited)	
Net income	$ 1,341	$ 3,525
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and other	1,181	722
Stock option charges	6	14
Provision for losses on receivables	--	--
Provision for losses on receivables and due from affiliates	--	53
Changes in assets and liabilities:		
Receivables	3,988	(17,392)
Inventory	327	--
Prepaid expenses and other current assets	(20)	(334)
Accounts payable	(1,157)	111
Deferred revenue	--	(2,799)
Claims payable	441	4,850
Payables to plan sponsors and others	(658)	2,234
Accrued expenses	(970)	1,826
Net cash provided by (used in) operating activities	4,479	(7,190)
Cash flows from investing activities:		
Purchase of property and equipment	(1,592)	(1,051)
Loans to affiliate and officer, net	(1,770)	--
Stockholder loans, net	222	(23)
Purchase of investment securities	(1,013)	(16,855)
Maturities of investment securities	7,334	18,425
Investment in preferred stock	--	--
Decrease (increase) in other assets	130	(211)
Net cash provided by investing activities	3,311	285
Cash flows from financing activities:		
Principal payments on capital lease obligations	(328)	(108)
Net payments on debt	(5,308)	--
Proceeds from exercise of stock options	5	3
Purchase of treasury stock	(338)	--
Net cash used in financing activities	(5,969)	(105)
Net decrease in cash and cash equivalents	1,821	(7,010)
Cash and cash equivalents--beginning of period	$ 4,495	$ 9,593
Cash and cash equivalents--end of period	$ 6,316	$ 2,583
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 86	$ 37
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Equipment acquired under capital lease obligations	$ 933	$-

The accompanying notes are an integral part of these consolidated financial statements.

MIM CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of MIM Corporation and subsidiaries (the "Company") have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "Commission"). Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. The results of operations and cash flows for the six months ended June 30, 1999 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 1999.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, notes and information included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 filed with the Commission (the "Form 10-K").

The accounting policies followed for interim financial reporting are the same as those disclosed in Note 2 to the consolidated financial statements included in the Form 10-K.

NOTE 2 - EARNINGS PER SHARE

The following table sets forth the computation of basic earnings per share and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Numerator:				
Net income	$ 737	$ 1,889	$ 1,341	$ 3,525
Denominator:				
Weighted average number of common shares outstanding	18,777	13,594	18,639	13,471
Basic Earnings per Share	$ .04	$ .14	$ .07	$ .26
Denominator:				
Weighted average number of common shares outstanding	18,777	13,594	18,639	13,471
Common share equivalents of outstanding stock options	176	1,895	194	1,996
Total shares outstanding	18,953	15,489	18,833	15,467
Diluted Earnings per Share	$ .04	$ .12	$ .07	$ .23

NOTE 3 - ACQUISITION

On August 24, 1998, the Company completed its acquisition of Continental Managed Pharmacy Services, Inc. and its subsidiaries (collectively, "Continental"), a company which provides pharmacy benefit management services and mail order pharmacy services. The acquisition was treated as a purchase for financial reporting purposes. The Company issued 3,912 shares of Common Stock as consideration for the purchase. The aggregate purchase price, including costs of acquisition of $1,100, approximated

$19,100. The fair value of assets acquired approximated $11,100 and liabilities assumed approximated $11,800, resulting in approximately $18,300 of goodwill and $1,200 of other intangible assets which will be amortized over their estimated useful lives (25 years for goodwill and six and four years, respectively, for other intangibles). The consolidated financial statements of the Company for the three and six month periods ended June 30, 1999 include the results of Continental.

The following unaudited consolidated pro forma information has been prepared assuming Continental was acquired as of January 1, 1998, with pro forma adjustments for amortization of goodwill and other intangible assets and income taxes. The pro forma information is presented for informational purposes only and is not indicative of what would have occurred if the acquisition had been made on January 1, 1998. In addition, this pro forma information is not intended to be a projection of future operating results.

	Six months ended June 30,	
	1999	1998
Revenue	$ 163,809	$ 238,605
Net income	$ 1,341	$ 4,400
Basic earnings per share	$ .07	$ .25
Diluted earnings per share	$ .07	$ .23

The amounts above include $29,770 of revenue from the operations of Continental for the six months ended June 30, 1999 and $30,764 for the six months ended June 30, 1998.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

On March 31, 1999, the State of Tennessee and Xantus Healthplan of Tennessee, Inc. ("Xantus") entered into a consent decree under which Xantus was placed in receivership under the laws of the State of Tennessee. The Commissioner of the Tennessee Department of Commerce and Insurance, as receiver of Xantus, is currently preparing a report to determine whether a plan of rehabilitation or liquidation is advisable, based on, among other things, the ability of Xantus to pay its post-petition obligations to providers, plan members and other creditors. At this time, the Company is unable to predict whether the receiver will recommend rehabilitation or liquidation or the effects of these actions or the implementation of either plan on the Company's ability to collect monies owed to it by Xantus. As of July 1, 1999, Xantus owed the Company $10,800 for pharmacy benefit management ("PBM") services rendered by the Company from January 1, 1999 through April 1, 1999, approximately $4,600 of which the Company has withheld from its pharmacy providers as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999, although the Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations.

NOTE 5 - LOAN TO OFFICER

In April 1999, the Company loaned to the Chairman and Chief Executive Officer of the Company $1,700, evidenced by a promissory note secured by a pledge of 1,500 shares of the Company's Common Stock. The note requires repayment of principal and interest by March 31, 2004. Interest accrues monthly at the Prime Rate (as defined in the note) then in effect. The loan was approved by the Company's Board of Directors in order to provide funds with which the Chairman could pay the Federal and state tax liability

associated with the exercise of stock options representing 1,500 shares of the Company's Common Stock in January 1998.

NOTE 6 - CONTRACTS

As part of the Company's normal review process, the Company determined that each of the Company's agreements (collectively, the "Agreements") with Tennessee Health Partnership ("THP") and Preferred Health Partnership of Tennessee, Inc. ("PHP") were not achieving profitability projections. Accordingly, in the first quarter of 1999, in accordance with the terms of the Agreements, the Company exercised its right to terminate the Agreements effective on September 28, 1999.

On June 25, 1999, the Company notified both THP and PHP that it would cease providing PBM services to them and their members if past due amounts of approximately $500 and $540 were not paid within 30 days as required by the Agreements. On July 23, 1999, THP and PHP filed complaints in the United States District Court for the Eastern District of Tennessee alleging that the Company did not have the right to cease providing services under the Agreements. The complaints also alleged that THP and PHP disputed the outstanding amounts invoiced by the Company under the Agreements and demanded that such disputes be arbitrated as required under the Agreements. Additionally, THP and PHP applied for a temporary restraining order as well as a preliminary and permanent injunction to prevent the Company from ceasing to provide PBM services until the conclusion of such arbitration proceedings.

The hearing on the motion for the temporary restraining order was scheduled to be heard on Wednesday, August 4, 1999. However, on Tuesday, August 3, 1999, the Company, THP and PHP agreed that (i) the Company would withdraw its termination notices which were to become effective September 28, 1999; (ii) the Agreements would be extended until December 31, 1999 under a fee-for-service (rather a than capitated) arrangement effective October 1, 1999 through December 31, 1999; (iii) the parties would negotiate diligently and in good faith towards the execution by October 1, 1999 of a new two-year arrangement for the period January 1, 2000 through December 31, 2001 (collectively, "New Agreements"); (iv) THP and PHP would dismiss the complaints without prejudice, subject to sharing or arbitration as described below; and (v) in the event that the parties successfully negotiate the New Agreements by October 1, 1999, the parties would share equally all disputed amounts; in the event that the parties cannot successfully negotiate New Agreements by October 1, 1999, the parties would submit all disputed amounts and issues to arbitration in accordance with the arbitration provisions of the Agreements. While the parties have agreed to negotiate the terms of a new two-year arrangement, no assurance can be given that the Company will be able to successfully renegotiate contracts with either or both of THP and PHP. The Company does not believe that its inability to renegotiate successfully contracts with either or both of THP and PHP would have a material adverse effect on its results of operations or financial condition.

* * * *

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (the "Form 10-K"), as well as the unaudited consolidated interim financial statements and the related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1999 filed with the Commission (this "Report").

This Report contains statements not purely historical and which may be considered forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. Forward looking statements may include statements relating to the Company's business development activities, sales and marketing efforts, the status of material contractual arrangements including the negotiation or re-negotiation of such arrangements, future capital expenditures, the effects of regulation and competition on the Company's business, future operating performance of the Company and the results, the benefits and risks associated with integration of acquired companies, the effect of year 2000 problems on the Company's operations, the effect of legal proceedings or investigations on the Company and its business and operations and/or the resolution or settlement thereof. Investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. These factors include, among other things, risks associated with risk-based or "capitated" contracts, increased government regulation related to the health care and insurance industries in general and more specifically, pharmacy benefit management organizations, increased competition from the Company's competitors, including competitors with greater financial, technical, marketing and other resources, and the existence of complex laws and regulations relating to the Company's business. This Report along with the Company's Form 10-K contain information regarding important factors that could cause such differences. The Company does not undertake any obligation to publicly release the results of any revisions to these forward looking statements that may be made to reflect any future events and circumstances.

Overview

The Company is an independent pharmacy benefit management ("PBM") and prescription mail service organization that partners with managed care organizations and healthcare providers to endeavor to control prescription drug costs. A majority of the Company's revenues have been derived from providing PBM services in the State of Tennessee to managed care organizations ("MCO's") participating in the State of Tennessee's TennCare program and behavioral health organizations ("BHO's") participating in the State of Tennessee's TennCare Partners program. At June 30, 1999, the Company provided PBM services to 157 health plan sponsors with an aggregate of approximately 2.0 million plan members, of which TennCare represented 7 health plans with approximately 1.2 million plan members. The TennCare contracts accounted for 51.1% of the Company's revenues for the six months ended June 30, 1999 and 74.2% of the Company's revenues for the six months ended June 30, 1998. With the addition of another TennCare MCO as of May 1, 1999, the Company anticipates that approximately 48% of its revenues for fiscal 1999 will be derived from providing PBM services to the TennCare MCO's.

Results of Operations

Three months ended June 30, 1999 compared to three months ended June 30, 1998

For the three months ended June 30, 1999, the Company recorded revenue of $88.9 million compared with revenue of $109.9 million for the three months ended June 30, 1998, a decrease of $21.0 million. Contracts with TennCare sponsors accounted for decreased revenues of $31.6 million as the Company did not retain contracts as of January 1, 1999 with the two TennCare BHO's it previously managed under a contract (the "RxCare Contract") with RxCare of Tennessee, Inc. ("RxCare"), which expired on December 31, 1998, and did not begin providing services to another TennCare MCO previously managed under the RxCare Contract until May 1, 1999. See "Other Matters" below for a more detailed discussion of the Company's past relationship with RxCare and the expiration of the RxCare Contract. The loss of these contracts represents $29.1 million and $5.7 million, respectively, of the decrease in revenue, partially offset by increases in other contracts with TennCare sponsors of approximately $3.2 million. Commercial revenue increased $6.1 million, offset by a decrease of $9.8 million due to the loss of a contract with a Nevada-based managed care organization, representing a net decrease of $3.7 million in commercial revenue. This overall decrease in revenues was partially offset by an increase in revenues of $14.3 million as a result of the Company's acquisition in August 1998 of the operations of Continental Managed Pharmacy Services Inc. ("Continental").

For the three months ended June 30, 1999, approximately 31% of the Company's revenues were generated from capitated contracts compared to 35% for the three months ended June 30, 1998, a decrease of 4%. This decrease resulted from the Company not providing PBM services until May 1, 1999 to a major TennCare MCO previously managed on a capitated basis throughout 1998 under the RxCare Contract, as well as the addition of new fee-for-service PBM business together with the Company's acquisition of Continental.

Cost of revenue for the three months ended June 30, 1999 decreased to $81.1 million from $103.7 million for the three months ended June 30, 1998, a decrease of $22.6 million. Contracts with TennCare sponsors accounted for $26.9 million of such decrease as the Company did not retain contracts as of January 1, 1999 with the two TennCare BHO's it previously managed under the RxCare Contract and did not begin providing services to another TennCare MCO previously managed under the RxCare Contract until May 1, 1999. The loss of these contracts represents $27.1 million and $5.0 million, respectively, of the decrease, partially offset by increases in other contracts with TennCare sponsors of approximately $5.2 million. Cost of revenue increases of $3.2 million from commercial business were offset by a decrease in cost of revenue of $10.4 million due to the loss of a contract with a Nevada-based managed care organization, representing a net decrease of $7.2 million. Such decreases in cost of revenue were partially offset by increases in cost of revenue of $11.5 million resulting from the Company's acquisition of Continental. As a percentage of revenue, cost of revenue decreased to 91.2% for the three months ended June 30, 1999 from 94.3% for the three months ended June 30, 1998, a decrease of 3.1%. This decrease resulted primarily due to the contribution of Continental's mail service drug distribution business which has experienced better profit margins than historically experienced by the Company's PBM business.

Selling, general and administrative expenses were $7.1 million for the three months ended June 30, 1999 compared to $4.8 million for the three months ended June 30, 1998, an increase of $2.3 million. The acquisition of Continental accounted for the entire $2.3 million of the increase. As a percentage of revenue, selling, general and administrative expenses increased to 8.0% for the three months ended June 30, 1999 from 4.4% for the three months ended June 30, 1998, an increase of 3.6%, primarily attributable to revenue decreases experienced from the loss of certain contracts with TennCare sponsors as discussed above.

For the three months ended June 30, 1999, the Company recorded amortization of goodwill and other intangibles of $0.2 million compared with no amortization expense for the three months ended June 30, 1998, an increase of $0.2 million. This amortization expense relates soley to the Company's acquisition of Continental. The Continental acquisition resulted in the recording of approximately $18.6 million of goodwill and $1.2 million of other intangible assets, which will be amortized over their estimated useful lives (25 years for goodwill and six years and four years for other intangible assets).

For the three months ended June 30, 1999, the Company recorded interest income, net of interest expense, of $.2 million compared to interest income of $.5 million for the three months ended June 30, 1998, a decrease of $.3 million. This decrease in interest income resulted from a reduced level of investment opportunities due to the additional working capital needs of the Company. See "Liquidity and Capital Resources."

For the three months ended June 30, 1999, the Company recorded net income of $.7 million, or $.04 per diluted share as compared to net income of $1.9 million, or $.12 per diluted share, for the three months ended June 30, 1998.

Six months ended June 30, 1999 compared to six months ended June 30, 1998

For the six months ended June 30, 1999, the Company recorded revenue of $163.8 million compared with revenue of $207.8 million for the six months ended June 30, 1998, a decrease of $44.0 million. Contracts with TennCare sponsors accounted for decreased revenues of $70.5 million as the Company did not retain contracts as of January 1, 1999 with the two TennCare BHO's it previously managed under the RxCare Contract and did not begin providing PBM services to another TennCare MCO previously managed under the RxCare Contract until May 1, 1999. The loss of these contracts represents $52.7 million and $23.3 million, respectively, of the decrease in revenue, partially offset by increases in other contracts with TennCare sponsors of approximately $5.5 million. Commercial revenue increased $15.0 million, offset by a decrease of $18.3 million due to the loss of a contract with a Nevada- based managed care organization, representing a net decrease of $3.3 million in commercial revenue. The overall decrease in revenues was partially offset by an increase in revenues of $29.8 million as a result of the Company's acquisition of Continental.

For the six months ended June 30, 1999, approximately 38% of the Company's revenues were generated from capitated contracts compared to 37% for the six months ended June 30, 1998, an increase of 1%. This increase resulted from changes in arrangements with the TennCare MCO's in 1999 as compared to 1998. As of January 1, 1999, the Company began providing capitated PBM services to two major MCO's previously managed on a fee-for-service basis throughout 1998 under the RxCare Contract. In addition, the Company did not begin providing capitated PBM services to another MCO until May 1, 1999, which MCO was previously managed on a capitated basis throughout 1998 under the RxCare Contract. The Company also acquired other non-risk PBM business through the Company's acquisition of Continental.

Cost of revenue for the six months ended June 30, 1999 decreased to $147.8 million from $196.0 million for the six months ended June 30, 1998, a decrease of $48.2 million. Contracts with TennCare sponsors accounted for $63.3 million of such decrease as the Company did not retain contracts as of January 1, 1999 with the two TennCare BHO's it previously managed under the RxCare Contract and did not begin providing PBM services to another TennCare MCO previously managed under the RxCare Contract until May 1, 1999. The loss of these contracts represents $49.3 million and $21.2 million, respectively, of the decrease, partially offset by increases in other contracts with TennCare sponsors of approximately $7.2 million. Cost of revenue increases of $12.9 million from commercial business were offset by a decrease in cost of revenue of $21.8 million due to the loss of a contract with a Nevada-based managed care organization, representing a net decrease of $8.9 million. Such decreases in cost of revenue were partially offset by increases of $24.0 million as a result of the Company's acquisition of Continental. As a percentage of revenue, cost of revenue decreased to 90.2% for the six months ended June 30, 1999 from 94.3% for the six months ended June 30, 1998, a decrease of 4.1%. This decrease resulted primarily due to the contribution of Continental's mail service drug distribution business which has experienced better profit margins than historically experienced by the Company's PBM business.

Selling, general and administrative expenses were $14.6 million for the six months ended June 30, 1999 compared to $9.3 million for the six months ended June 30, 1998, an increase of $5.3 million. The acquisition of Continental accounted for $4.7 million of the increase. The remaining $.6 million increase in expenses reflects expenditures incurred in connection with the Company's continuing commitment to enhance its ability to manage efficiently pharmacy benefits by investing in information systems to support new and existing customers. As a percentage of revenue, selling, general and administrative expenses increased to 8.9% for the six months ended June 30, 1999 from 4.5% for the six months ended June 30, 1998, an increase of 4.4%, primarily attributable to revenue decreases experienced from the loss of certain contracts with TennCare sponsors as discussed above.

For the six months ended June 30, 1999, the Company recorded amortization of goodwill and other intangibles of $0.4 million compared with no amortization expense for the six months ended June 30, 1998, an increase of $0.4 million. This amortization expense relates solely to the Company's acquisition of Continental. The Continental acquisition resulted in the recording of approximately $18.6 million of goodwill and $1.2 million of other intangible assets, which will be amortized over their estimated useful lives (25 years for goodwill and six years and four years for other intangible assets).

For the six months ended June 30, 1999, the Company recorded interest income, net of interest expense, of $0.4 million compared to interest income of $1.0 million for the six months ended June 30, 1998, a decrease of $0.6 million. This decrease in interest income resulted from a reduced level of invested capital due to the additional working capital needs of the Company. See "Liquidity and Capital Resources."

For the six months ended June 30, 1999, the Company recorded net income of $1.3 million, or $.07 per diluted share compared to net income of $3.5 million, or $.23 per diluted share, for the six months ended June 30, 1998.

Liquidity and Capital Resources

The Company utilizes both funds generated from operations, if any, and funds raised in its initial public offering (the "Offering") for capital expenditures and working capital needs. For the six months ended June 30, 1999, net cash provided from operating activities totaled $4.5 million, due mainly to a decrease in accounts receivable of $3.9 million resulting primarily from improved collections of accounts receivable and a proportionate decrease in PBM business.

Investing activities generated $3.3 million primarily from proceeds of maturities of investment securities of $7.3 million. This cash provided was partially offset by purchases of $1.6 million of equipment and a loan to an officer of $1.7 million. The equipment purchases are primarily to upgrade and enhance information systems necessary to strengthen and support the Company's ability to manage its customer's PBM programs and to be competitive in the PBM industry. The loan to an officer enabled the Chairman to pay Federal and state tax liabilities associated with the exercise of stock options. Financing activities used $6.0 million of cash primarily to decrease the Company's revolving debt by $5.3 million.

At June 30, 1999, the Company had working capital of $13.0 million compared to $19.8 million at December 31, 1998, a decrease of $6.8 million. Cash and cash equivalents increased to $6.3 million at June 30, 1999 compared with $4.5 million at December 31, 1998, an increase of $1.8 million. The Company had investment securities held to maturity of $5.4 million at June 30, 1999 compared with $11.7 million at December 31, 1998, a decrease of $6.3 million. The decrease in investment securities was due to the Company's increased working capital requirements. With the exception of the Company's $2.3 million preferred stock investment in Wang Healthcare Information Systems, Inc., the Company's investments are primarily corporate debt securities rated AA or higher and government securities.

On March 31, 1999, the State of Tennessee and Xantus Healthplan of Tennessee, Inc. ("Xantus") entered into a consent decree under which Xantus was placed in receivership under the laws of the State of Tennessee. The Commissioner of the Tennessee Department of Commerce and Insurance, as receiver of Xantus, is currently preparing a report to determine whether a plan of rehabilitation or liquidation is advisable, based on, among other things, the ability of Xantus to pay its post-petition obligations to providers, plan members and other creditors. At this time, the Company is unable to predict whether the receiver will recommend rehabilitation or liquidation or the effects of these actions or the implementation of either plan on the Company's ability to collect monies owed to it by Xantus. As of July 1, 1999, Xantus owed the Company $10.8 million for PBM services rendered by the Company from January 1, 1999 through April 1, 1999, approximately $4.6 million of which the Company has withheld from its pharmacy providers as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999, although the Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations.

In April 1999, the Company loaned to the Chairman and Chief Executive Officer of the Company $1.7 million, evidenced by a promissory note secured by a pledge of 1.5 million shares of the Company's Common Stock. The note requires repayment of principal and interest by March 31, 2004. Interest accrues monthly at the Prime Rate (as defined in the note) then in effect. The loan was approved by the Company's Board of Directors in order to provide funds with which the Chairman could pay the Federal and state tax liability associated with the exercise of stock options representing 1.5 million shares of the Company's Common Stock in January 1998.

As part of the Company's normal review process, the Company determined that each of the Company's agreements (collectively, the "Agreements") with Tennessee Health Partnership ("THP") and Preferred Health Partnership of Tennessee, Inc. ("PHP") were not achieving profitability projections. Accordingly, in the first quarter of 1999, in accordance with the terms of the Agreements, the Company exercised its right to terminate the Agreements effective on September 28, 1999.

On June 25, 1999, the Company notified both THP and PHP that it would cease providing PBM services to them and their members if past due amounts of approximately $500,000 and $540,000 were not paid within 30 days as required by the Agreements. On July 23, 1999, THP and PHP filed complaints in the United States District Court for the Eastern District of Tennessee alleging that the Company did not have the right to cease providing services under the Agreements. The complaints also alleged that THP and PHP disputed the outstanding amounts invoiced by the Company under the Agreements and demanded that such disputes be arbitrated as required under the Agreements. Additionally, THP and PHP applied for a temporary restraining order as well as a preliminary and permanent injunction to prevent the Company from ceasing to provide PBM services until the conclusion of such arbitration proceedings.

The hearing on the motion for the temporary restraining order was scheduled to be heard on Wednesday, August 4, 1999. However, on Tuesday, August 3, 1999, the Company, THP and PHP agreed that (i) the Company would withdraw its termination notices which were to become effective September 28, 1999; (ii) the Agreements would be extended until December 31, 1999 under a fee-for-service (rather a than capitated) arrangement effective October 1, 1999 through December 31, 1999; (iii) the parties would negotiate diligently and in good faith towards the execution by October 1, 1999 of a new two-year arrangement for the period January 1, 2000 through December 31, 2001 (collectively, "New Agreements"); (iv) THP and PHP would dismiss the complaints without prejudice, subject to sharing or arbitration as described below; and (v) in the event that the parties successfully negotiate the New Agreements by October 1, 1999, the parties would share equally all disputed amounts; in the event that the parties cannot successfully negotiate New Agreements by October 1, 1999, the parties would submit all disputed amounts and issues to arbitration in accordance with the arbitration provisions of the Agreements. While the parties have agreed to negotiate the terms of a new two-year arrangement, no assurance can be given that the Company will be able to renegotiate successfully contracts with either or both of THP and PHP. The Company does not believe that its inability to renegotiate successfully contracts with either or both of THP and PHP would have a material adverse effect on its results of operations or financial condition.

Under Section 145 of the Delaware General Corporation Law ("Section 145") and the Company's Amended and Restated By-Laws ("By-Laws"), the Company is obligated to indemnify two former officers of the Company (one of which is also a former director and still a principal stockholder of the Company) who are the subject of the indictments brought in the United States District Court for the Western District of Tennessee (as more fully described in the Form 10-K), unless it is ultimately determined by the Company's Board of Directors that these former officers failed to act in good faith and in a manner they reasonably believed to be in the best interests of the Company, that they had reason to believe that their conduct was unlawful of for any other reason under which indemnification would not be required Section 145 or the By-Laws. In addition, until the Board makes such a determination, the Company is also obligated under Section 145 and its By-Laws to advance the costs of defense to such persons; however, if the Board determines that either or both of these former officers are not entitled to indemnification, such individuals would be obligated to reimburse the Company for all amounts so advanced. The Company is not presently in a position to assess the likelihood that either or both of these former officers will be entitled to such indemnification and continued advancement of defense costs or to estimate the total amount that it may have to pay in connection with such obligations or the time period over which such amounts will have to be advanced. No assurance can be given, however, that the Company's obligations to either or both of these former officers would not have a material adverse effect on the Company's results of operations or financial condition.

At December 31, 1998, the Company had, for tax purposes, unused net operating loss ("NOL") carryforwards of approximately $47 million which will begin expiring in 2008. As it is uncertain whether the Company will realize the full benefit from these NOL carryforwards, the Company has recorded a valuation allowance equal to the deferred tax asset generated by the carryforwards. The Company assesses the need for a valuation allowance at each balance sheet date. The Company has undergone a "change in control" as defined in the Internal Revenue Code of 1986, as amended ("Code"), and the rules and regulations promulgated thereunder. The amount of NOL carryforwards that may be utilized in any given year will be subject to a limitation as a result of this change. The annual limitation approximates $2.7 million. Actual utilization in any year will vary based on the Company's tax position in that year.

As the Company continues to grow, it anticipates that its working capital needs will also continue to increase. The Company expects to spend approximately $1.7 million on capital expenditures during fiscal 1999 ($0.7 million of which was expended through the second quarter of 1999) primarily for expansion and continued upgrading of information systems. The Company believes that it has sufficient cash on hand or available to fund the Company's anticipated working capital and other cash needs for at least the next twelve months.

The Company may also pursue joint venture arrangements, business acquisitions and other strategic transactions and arrangements designed to expand its business, which the Company would expect to fund from cash on hand or future indebtedness or, if appropriate, the sale or exchange of equity securities of the Company.

Other Matters

From January 1994 through December 31, 1998, the Company provided a broad range of PBM services with respect to RxCare's TennCare, TennCare Partners and commercial PBM business under the RxCare Contract. Under the terms of the RxCare Contract, the Company performed essentially all of RxCare's obligations under its PBM contracts with plan sponsors, including designing and marketing PBM programs and services. Under the RxCare Contract, the Company paid certain amounts to RxCare and shared with RxCare the profit, if any, derived from services performed under RxCare's contracts with the plan sponsors.

The Company and RxCare did not renew the RxCare Contract which expired on December 31, 1998. The negotiated termination of the Company's relationship with RxCare, among other things, allowed the Company to market directly its services to Tennessee customers, including those MCO's and commercial customers then serviced by the Company through the RxCare Contract, prior to its expiration. The RxCare Contract had previously prohibited the Company from soliciting and/or marketing its PBM services in Tennessee other than on behalf of, and for the benefit of, RxCare. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 for a more detailed discussion of the Company's past relationship with RxCare and the expiration of the RxCare Contract.

The Company's pharmaceutical claims costs historically have been subject to significant increases from October through February, which the Company believes is due to the need for increased medical attention to, and intervention with, MCO's members during the colder months. The resulting increase in pharmaceutical costs impacts the profitability of capitated contracts or other risk-based arrangements. Risk-based business represented approximately 38% of the Company's revenues while non-risk business (including the provision of mail order services) represented approximately 62% of the Company's revenues for the six months ended June 30, 1999. Non-risk arrangements mitigate the adverse effect on profitability of higher pharmaceutical costs incurred under risk-based contracts. The Company presently anticipates that approximately 31% of its revenues in fiscal 1999 will be derived from risk-based arrangements.

Changes in prices charged by manufacturers and wholesalers or distributors for pharmaceuticals, a component of pharmaceutical claims, have historically affected the Company's cost of revenue. The Company believes that it is likely that prices will continue to increase which could have an adverse effect on the Company's gross profit. To the extent such cost increases adversely effect the Company's gross profit, the Company may be required to increase contract rates on new contracts and upon renewal of existing contracts. However, there can be no assurance that the Company will be successful in obtaining these rate increases. The higher level of non-risk contracts with the Company's customers in 1999 compared to prior years mitigates the adverse effects of price increases, although no assurance can be given that the recent trend towards non-risk arrangements will continue.

Generally, loss contracts arise only on capitated or other risk-based contracts and primarily result from higher than expected pharmacy utilization rates, higher than expected inflation in drug costs and the inability of the Company to restrict its MCO clients' formularies to the extent anticipated by the Company at the time contracted PBM services are implemented, thereby resulting in higher than expected drug costs. At such time as management estimates that a contract will sustain losses over its remaining contractual life, a reserve is established for these estimated losses. Management does not believe that there is an overall trend towards losses on its existing capitated contracts.

Year 2000 disclosure

The so-called "year 2000 problem," which is common to many companies, concerns the inability of information systems, primarily computer hardware and software programs, to recognize properly and process date sensitive information following December 31, 1999. The Company committed substantial resources (approximately $2.6 million) during 1997 and 1998 and anticipates spending an additional $1.7 million during 1999 to improve its information systems ("IS project"). The Company has used this IS project as an opportunity to evaluate its state of readiness, estimate expected costs and identify and quantify risks associated with any potential year 2000 issues.

State of Readiness:

In evaluating the Company's potential exposure to the year 2000 problem, management first identified those systems that were critical to the ongoing business of the Company and that would require significant manual intervention should those systems be unable to process dates correctly following December 31, 1999. Those systems were the Company's claims adjudication and processing system and the internal accounting system (which includes pharmacy reimbursement). Once those systems were identified, the following steps were identified as those that would be required to be taken to ascertain the Company's state of readiness:

I. Obtaining letters from software and hardware vendors concerning the ability of their products to properly process dates after December 31, 1999;

II. Testing the operating systems of all hardware used in the identified information systems to determine if dates after December 31, 1999 can be processed correctly;

III. Surveying other parties who provide or process information in electronic format to the Company as to their state of readiness and ability to process dates after December 31, 1999; and

IV. Testing the identified information systems to confirm that they will properly recognize and process dates after December 31, 1999.

The Company (excluding for purposes of this year 2000 discussion only, Continental) has completed Step I. The Company will continue to obtain letters from new hardware and software vendors. The Company has completed the implementation of Step II. All server/host operating systems have been upgraded to manufacturer specifications to be year 2000 compliant. The Company will continue to monitor software manufacturer patch releases for additional enhancements.

With respect to Step III above, the Company has engaged in discussions with the third party vendors that transmit data from member pharmacies and based upon such discussions it believes that such third party vendors' systems will be able to properly recognize and process dates after December 31, 1999. The Company continues surveying member pharmacies in its network as to their ability to transmit data correctly to such third party vendors. Questionnaires have been distributed to all member pharmacies. Follow-up letters recently have been sent to all pharmacies that have not responded. With respect to the pharmacies which have responded, based upon such responses, the Company does not anticipate that any additional steps will be required to allow such pharmacies to process claims transactions through the third party vendors after December 31, 1999. For the remaining pharmacies, once this survey is complete, the Company will evaluate any additional steps required to allow member pharmacies to transmit data after December 31, 1999 and will disclose such additional steps, if any, and their related costs in future periodic reports.

With respect to Step IV above, the Company successfully completed a year 2000 compliance test of the claims adjudication and processing systems during our regularly scheduled disaster recovery drill, which took place on June 28, 1999. As a result of this compliance test, the Company believes its claims adjudication and processing system will be able to properly accept and transmit data after December 31, 1999 with no significant disruption. The Company's internal accounting and other administrative systems generally have been internally developed during the last few years or are presently being developed. Accordingly, in light of the fact that such systems were developed with a view to year 2000 compliance, the Company fully expects that these systems will be able to properly recognize and process dates after December 31, 1999.

Continental's computer systems related to the delivery of pharmaceutical products through mail order were upgraded in the fourth quarter of 1998 to become year 2000 compliant. Continental's internal accounting systems were upgraded during the second quarter of 1999, and are now year 2000 compliant. All remaining systems at Continental are on schedule to be compliant by the end of the third quarter of 1999.

Costs:
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As noted above, the Company spent approximately $2.6 million during 1997 and 1998 to improve its information systems. In addition, the Company anticipates that it will spend approximately $1.7 million (of which $0.7 million was expended in the first six months of 1999) during 1999 to further improve its information systems. These improvements were not, and are not intended to specifically address the year 2000 issue, but rather to address other business needs and issues. Nonetheless, the IS project has provided the Company with a platform from which to address any year 2000 issues. Management does not believe that the amount of funds expended in connection with the IS project would have differed materially in the absence of the year 2000 problem. The Company's cash on hand as a result of the Offering has provided all of the funds expended to date on the IS project and is expected to provide substantially all of the funds expected to be spent during 1999 on the IS project.

Risks:
- -----

On July 29, 1998, the Commission issued Release No. 33-7558 (the "Release") in an effort to provide further guidance to reporting companies concerning disclosure of the year 2000 problem. In this Release the Commission required that registrants include in its year 2000 disclosure a description of its "most reasonably likely worst case scenario." Based on the Company's assessment and the results of remediation performed to date as described above, the Company believes that all problems related to the year 2000 will be addressed in a timely manner so that the Company will experience little or no disruption in its business immediately following December 31, 1999. However, if unforeseen difficulties arise, if the Company's further assessment of Continental uncovers significant problems (which is not presently expected to occur) or if further compliance testing is delayed or necessary remediation efforts are not accomplished in accordance with the Company's plans described above, the Company anticipates that its "most reasonably likely worst case scenario" (as required to be described by the Release) is that some percentage of the Company's claims would need to be processed manually for some limited period of time, because member pharmacies would not be able to transmit data electronically. At this point in time, the Company cannot reasonably estimate the number of pharmacies or the level of claims involved or the costs that would be incurred if the Company were required to hire temporary staff and incur other expenses to manually process such claims. The Company expects to be better able to quantify the number of pharmacies and level of claims involved as well as the related costs following its completion of the survey of member pharmacies in the third quarter of 1999 and presently intends to disclose such estimates in future periodic reports. In addition, the Company anticipates that all businesses (regardless of their state of readiness), including the Company, will encounter some minimal level of disruption in its business (e.g., phone and fax systems, alarm systems, etc.) as a result of the year 2000 problem. However, the Company does not believe that it will incur any material expenses or suffer any material loss of revenues in connection with such minimal disruptions.

Contingency Plans:
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As discussed above, in the event of the occurrence of the "most reasonably likely worst case scenario" the Company would hire an appropriate level of temporary staff to manually process the pharmacy claims submitted on paper. As discussed above, at this time the Company cannot reasonably estimate the number of pharmacies or level of claims involved or the costs that would be incurred if the Company were required to hire temporary staff and incur other expenses to manually process such claims. While some level of manual processing is common in the industry and while manual processing increases the time it takes the Company to pay the member pharmacies and invoice the related payers, the Company does not foresee any material lost revenues or other material expenses in connection with this scenario. However, an extended delay in processing claims, making payments to pharmacies and billing the Company's customers could materially adversely impact the Company's liquidity.

In addition, while not part of the "most reasonably likely worst case scenario," the delay in paying such pharmacies for their claims could result in adverse relations between the Company and the pharmacies. Such adverse relations could cause certain pharmacies to drop out of the Company's networks which in turn could cause the Company to be in breach under service area provisions under certain of its services

agreements with its customers. The Company does not believe that any material relationship with any pharmacy will be so affected or that any material number of pharmacies would withdraw from the Company's networks or that it will breach any such service area provision of any contract with its customers. Notwithstanding the foregoing, based upon past experience, the Company believes that it could quickly replace any such withdrawing pharmacy so as to prevent any breach of any such provision. The Company cannot presently reasonably estimate the possible impact in terms of lost revenues, additional expenses or litigation damages or expenses that could result from such events.

Forward Looking Statements:

Certain information set forth above regarding the year 2000 problem and the Company's plans to address those problems are forward looking statements under the Securities Act and the Exchange Act. See the first paragraph in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of forward looking statements and related risks and uncertainties. In addition, certain factors particular to the year 2000 problem could cause actual results to differ materially from those contained in the forward looking statements, including, without limitation: failure to identify critical information systems which experience failures, delays and errors in the compliance and remediation efforts described above, unexpected failures by key vendors, member pharmacies, software providers or business partners to be year 2000 compliant or the inability to repair critical information systems in the time frames described above. In any such event, the Company's results of operations and financial condition could be materially adversely affected. In addition, the failure to be year 2000 compliant of third parties outside of the Company's control such as electric utilities or financial institutions could adversely effect the Company's results of operations and financial condition.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company believes that interest rate risk represents the only market risk exposure applicable to the Company. The Company's exposure to market risks associated with changes in interest rates relates primarily to the Company's investments in marketable securities in accordance with the Company's corporate investment policies and guidelines. All of these instruments are classified as "held-to-maturity" on the Company's consolidated balance sheets and were entered into by the Company solely for investment purposes and not for trading purposes. The Company does not invest in or otherwise use derivative financial instruments. The Company's investments consist primarily of corporate debt securities, corporate preferred stock and State and local governmental obligations, each rated AA or higher. The table below presents principal cash flow amounts and related weighted average effective interest rates by expected (contractual) maturity dates for the Company's financial instruments subject to interest rate risk:

	1999	2000	2001	2002	2003	Thereafter
Short-term investments						
Fixed rate investments	5,350	--	--	-	-	--
Weighted average rate	6.68%	--	--	-	-	--
Long-term investments:						
Fixed rate investments	--	--	--	-	-	--
Weighted average rate	--	--	--	-	-	--
Long-term debt:						
Variable rate instruments	91	312	682	-	-	--
Weighted average rate	9.00%	9.00%	7.83%	-	-	--

In the table above, the weighted average interest rate for fixed and variable rate financial instruments in each year was computed utilizing the effective interest rate at June 30, 1999 for that instrument multiplied by the percentage obtained by dividing the principal payments expected in that year with respect to that instrument by the aggregate expected principal payments with respect to all financial instruments within the same class of instrument.

At June 30, 1999, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable and payables to plan sponsors and others approximate fair value due to their short-term nature.

Because management does not believe that its exposure to interest rate market risk is material at this time, the Company has not developed or implemented a strategy to manage this market risk through the use of derivative financial instruments or otherwise. The Company will assess the significance of interest rate market risk from time to time and will develop and implement strategies to manage that risk as appropriate.

* * * *

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

On March 31, 1999, the State of Tennessee and Xantus entered into a consent decree under which Xantus was placed in receivership under the laws of the State of Tennessee. The Commissioner of the Tennessee Department of Commerce and Insurance, as receiver of Xantus, is currently preparing a report to determine whether a plan of rehabilitation or liquidation is advisable, based on, among other things, the ability of Xantus to pay its post-petition obligations to providers, plan members and other creditors. At this time, the Company is unable to predict whether the receiver will recommend rehabilitation or liquidation or the effects of these actions or the implementation of either plan on the Company's ability to collect monies owed to it by Xantus. As of July 1, 1999, Xantus owed the Company $10.8 million for PBM services rendered by the Company from January 1, 1999 through April 1, 1999, approximately $4.6 million of which the Company has withheld from its pharmacy providers as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999, although the Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations.

As part of the Company's normal review process, the Company determined that its Agreements with THP and PHP were not achieving profitability projections. Accordingly, in the first quarter of 1999, in accordance with the terms of the Agreements, the Company exercised its right to terminate the Agreements effective on September 28, 1999.

On June 25, 199, the Company notified both THP and PHP that it would cease providing PBM services to them and their members if past due amounts of approximately $500,000 and $540,000 were not paid within 30 days as required by the Agreements with those organizations. On July 23, 1999, THP and PHP filed complaints in the United States District Court for the Eastern District of Tennessee alleging that the Company did not have the right to cease providing services under the Agreements. The complaints also alleged that THP and PHP disputed the outstanding amounts invoiced by the Company under the Agreements and demanded that such disputes be arbitrated as required under the Agreements. Additionally, THP and PHP applied for a temporary restraining order as well as a preliminary and permanent injunction to prevent the Company from ceasing to provide PBM services until the conclusion of such arbitration proceedings.

The hearing on the motion for the temporary restraining order was scheduled to be heard on Wednesday, August 4, 1999. However, on Tuesday, August 3, 1999, the Company, THP and PHP agreed that (i) the Company would withdraw its termination notices which were to become effective September 28, 1999; (ii) the Agreements would be extended until December 31, 1999 under a fee-for-service (rather a than capitated) arrangement effective October 1, 1999 through December 31, 1999; (iii) the parties would negotiate diligently and in good faith towards the execution by October 1, 1999 of a new two-year arrangement for the period January 1, 2000 through December 31, 2001 (collectively, "New Agreements"); (iv) THP and PHP would dismiss the complaints without prejudice, subject to sharing or arbitration as described below; and (v) in the event that the parties successfully negotiate the New Agreements by October 1, 1999, the parties would share equally all disputed amounts; in the event that the parties cannot successfully negotiate New Agreements by October 1, 1999, the parties would submit all disputed amounts and issues to arbitration in accordance with the arbitration provisions of the Agreements. While the parties have agreed to negotiate the terms of a new two-year arrangement, no assurance can be given that the Company will be able to renegotiate successfully contracts with either or both of THP and PHP. The

Company does not believe that its inability to renegotiate successfully contracts with either or both of THP and PHP would have a material adverse effect on its results of operations or financial condition.

Item 2. Changes in Securities and Use of Proceeds

From August 14, 1996 through March 31, 1999, the $46,788,000 net proceeds from the initial public offering (the "Offering"), pursuant to a Registration Statement assigned file number 333-05327 by the Securities and Exchange Commission and declared effective by the Commission on August 14, 1996, have been applied in the following approximate amounts:

Construction of plant, building and facilities	$ -
Purchase and installation of machinery and equipment	$ 5,860,000
Purchases of real estate	$ -
Acquisition of other business	$ 2,341,000
Repayment of indebtedness	$ -
Working capital	$26,898,000
Temporary investments:	
Marketable securities	$ 5,373,000
Overnight cash deposits	$ 6,316,000

To date, the Company has expended a relatively insignificant portion of the Offering proceeds on expansion of the Company's "preferred generics" business which was described more fully in the Offering prospectus and the Company's Annual Report on Form 10-K for the year ended December 31, 1996. At the time of the Offering, however, as disclosed in the Offering prospectus and subsequent Forms SR, the Company intended to apply approximately $18.6 million of Offering proceeds to fund an expansion of the "preferred generics" program. The Company has determined not to apply any material portion of the Offering proceeds to fund any expansion of this program. The Company presently intends to use the remaining Offering proceeds to support the continued growth of its PBM and mail order business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's security holders during the second quarter of fiscal 1999.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
27	Financial Data Schedule

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the second quarter of fiscal 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

MIM CORPORATION

Date: August 13, 1999

/s/ Edward J. Sitar

Edward J. Sitar
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index
(Exhibits being filed with this Quarterly Report on Form 10-Q)

27 Financial Data Schedule

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3-MOS

DEC-31-1999

JAN-1-1999

JUN-30-1999

6,316

5,373

62,882

2,123

860

74,185

10,287

3,679

104,299

61,188

0

0

0

2

40,288

104,299

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163,809

147,810

147,810

0

0

0

1,341

0

1,341

0

0

0

1,341

0.07

0.07